



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 4.4.2006
COM(2006) 155 final

REPORT FROM THE COMMISSION

The agricultural situation in the European Union

2004 report

{SEC(2006)423}

INTRODUCTION

1. "The agricultural situation in the European Union – 2004 report", was completed in September 2005, and is published in conjunction with the General Report on the Activities of the European Union. A separate publication has been produced in the beginning of 2005 in English, with the title "Agriculture in the European Union – Statistical and economic information 2004". The present report deals in nine chapters with the main significant subjects in the year in question.

1. ECONOMIC SITUATION AND FARM INCOMES

2. Crop production was higher in 2004 compared to the previous year. As for livestock products (ie meat, milk and other dairy products) farmers either produced the same amount or more, depending on the product. Broadly speaking, farmers in the ten new Member States saw their incomes increase substantially because they started to receive direct payments under the Common Agricultural Policy. In some of 15 "old" Member States farmers experienced an increase in income, while in others they saw their incomes fall. The main reason for the fall in incomes was that farmers had to pay more for their fuel, fertilizers and feedingstuffs. Over the European Union as a whole, agricultural income rose by 3 %. As for the distribution of income, the top 20 % of farms received 70 % of total farm income, while the top 50 % of farms received 90 % of total farm income.
3. The world economy grew at an estimated rate of 5 % during 2004. This was the fastest rate since the seventies and was due to supportive macroeconomic policies, historically low interest rates and particularly strong growth in some emerging economies such as China. Oil prices rose sharply during the year, peaking in October 2004 at about USD 55 per barrel. In the European Union economic growth is projected to have been 2.5 %. The Euro recorded a high against the dollar in February, finishing the year at USD 1.36.
4. In the first nine months of 2004 the overall value of EU agricultural exports was stable compared to the same period in 2003. The overall value of imports rose by 4 % in the first nine months of the year, compared to the same period in 2003 (the EU remained a net importer of beef for the second consecutive year). The overall trade deficit in agricultural products in the first nine months of the year deepened to EUR 3 billion compared to EUR 2 billion in 2003. As for the level of intervention stocks, these decreased in the case of meat and dairy products but were expected to increase for cereals, due to the exceptional harvest in 2004 and low prices on the world cereal market.

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2003

2.1. The CAP reform

5. A package of reforms to the CAP was agreed in June 2003. The central element of the reform was "single payment scheme" – the decoupled aid payment that (from 2005 onwards) incorporates and replaces many of the former direct aids to farmers.

6. A second wave of reforms was agreed in April 2004. It applies to the tobacco, olive oil, cotton and hops sectors. A significant part of the production-linked payments made to those farmers who grow these crops will be transferred to the de-coupled single payment scheme (introduced into the CAP in June 2003). The payments will have to comply with horizontal obligations such as cross-compliance, modulation and financial discipline. The reforms will enter into force in 2006 (2005 for hops).

2.2. Quality policy

7. By adopting Regulation (EC) No 383/2004 the Commission introduced greater transparency into its policy of protecting the names of agricultural products. The Commission furthermore produced a Guide to Community Regulations in order to explain the purpose, scope and implication of Regulations (EEC) No 2081/92 and (EEC) No 2082/92, which are the regulations that specify the quality policy of the EU. During the year, the Commission added 49 names to the list of protected designations of origin and protected geographical indications: the list currently comprises 681 products.

2.3. Organic farming

8. In June 2004, the Commission launched the European Action Plan for organic food and farming. This analyses the current state of the organic sector and lays down an overall framework for policy in this area. It also sets out 21 actions, including regulatory initiatives, to advance policy favouring a balanced development of the sector. The plan is the outcome of a public consultation exercise, undertaken over the last three years and to which Member States, Community institutions, stakeholders and all interested parties have made contributions.

2.4. Promotional measures

9. As in previous years, the Commission continued to promote the sale of agricultural products both within the EU and outside it. In 2004, a number of new programmes for the promotion of products were approved for co-financing. Thirteen of these were in countries outside the EU (Japan, Russia, USA, Canada and Brazil amongst others). 46 new programmes were approved to promote products within the EU.

2.5 Simplification of agricultural legislation

10. Simplification continued to be an important objective during 2004. One purpose is to make the legislation as clear, as transparent and as accessible as possible. Another is to reduce paperwork for farmers and the various national authorities that are responsible for administering the Common Agricultural Policy in the Member States.

2.6. State aids

11. In October 2004, the Commission adopted Regulation (EC) No 1860/2004 concerning *de minimis* aid to farmers and fishermen. This regulation exempts Member States from having to give prior notification to the Commission when they grant national aid to farmers and fishermen, so long as the aid is not more than EUR 3 000 per recipient. This initiative will help farmers and fishermen when they are in a financial crisis.

12. During the year, the Commission took a number of decisions relating to state aid that had been granted previously for the promotion and advertising of farm products. As concerns the granting of state aid by Member States, the Commission received 252 notifications of draft measures in the agricultural and agro-industrial sector. It raised no objections to 212 of these measures.

2.7. Assistance to the needy

13. The European Union continued its aid programme for the needy by distributing farm products from intervention stocks to associations working with deprived people in the Member States. During 2004, products to the value of some EUR 214 million were so distributed.

2.8. The outermost regions

14. In October the Commission adopted a proposal for a Council Regulation aimed at the reform of the support schemes for agriculture in the outermost regions of the EU. The purpose of the reform is to improve the management of the schemes. In particular the reform seeks to change the philosophy behind the way assistance is provided by, for example, encouraging participation in decision making.

2.9. Information measures concerning the CAP

15. The Commission continued its efforts to explain the CAP to farmers, to other parties and to the general public. To this end, it approved the co-financing of 31 measures aimed at informing people about the CAP. The measures include seminars, conferences, publications and audiovisual media productions. The Commission itself organised a number of events such as press briefings, hearings and conferences. It was also present at five agricultural fairs held in various Member States.

2.10. Information and communication technology

16. In 2004, investments were made to maintain and further develop the information systems of DG Agriculture. Developments were driven by two major events: the enlargement of the EU and the introduction of accrual accounting.

2.11. Advisory committees and relations with bodies representing the trade

17. Some 85 meetings of advisory committees and working groups were held in 2004, during which the Commission consulted and informed the representatives of the many stakeholder organisations that attended. The European Parliament convened 15 plenary sessions. DG Agriculture attended whenever the Parliament discussed subjects of relevance to rural and agricultural affairs. DG Agriculture provided responses or contributed to responses to 616 questions from MEPs.

3. AGRICULTURAL MARKETS

3.1. Crop products

18. At the world level, production of **cereals** rose in the 2003/4 marketing year compared to the previous year. However, in the EU it fell substantially. World cereal stocks

declined once again, the 2003/4 estimate of stocks being 260 million tonnes, as against 320 million tonnes in 2002/3 and 380 million in 2001/2. For the first time in several years, the EU produced less cereals than it consumed; the shortfall in wheat and maize was particularly marked.

19. **Oilseeds** are grown for oil for human consumption and for cake which is used to feed animals. Despite the excellent weather in Europe in 2004 – which allowed yields to recover from their low level of the previous year – the EU continued to be a net importer of oilseeds.
20. Concerning the world **sugar** market, 2003/4 was again a "surplus" year in that production exceeded consumption. Brazilian sugar farmers – who are by far the biggest producers of sugar in the world – again reached a new record level of output. Within the EU, the area sown to sugar beet continued its long-term trend downwards and in 2003/4 production was significantly less than in the previous year. The lower output affected the production of non-quota "C" sugar, which either has to be exported without an export subsidy or has to be carried forward to the following campaign.
21. The Commission proposed a reform of the **sugar** regime and in September 2003 it published an analysis of three options regarding the future of the regime. During 2004, these options were discussed in detail with the Member States and with the major stakeholders. In July 2004, the Commission published a Communication to the Council and the European Parliament spelling out its proposals concerning the future of the common market organisation for sugar. The essence of the proposal is a significant reduction in the price of sugar beet which would be partially compensated by direct payments.
22. The European Union is the world's main producer of **olive oil**, accounting for about three-quarters of the world's supply. The second wave of the CAP reform adopted in April 2004 provides for the reform of this sector. In particular a minimum of 60 % of the average production-linked payments received during the period 2000-2002 will be converted into entitlements under the Single Payment Scheme. Olive farms that are smaller than 0.3 hectares will receive all their previous production-linked payments in order to simplify the procedures for the smaller farmers and provide a stable income.
23. In 2003, the Commission started to simplify the rules concerning **fresh fruit and vegetables**. It continued this work in 2004.
24. The EU grows only a small proportion of the **bananas** that it consumes, importing the balance from African, Caribbean and Pacific countries (ACP countries) and a variety of other third countries, principally in Central and South America. During 2004, in view of the accession of the ten new Member States, an additional quantity was made available for imports into these countries for the period from 1 May to 31 December 2004.
25. The EU is the world's top exporter of **wine**. Its main markets are the United States, Switzerland, Canada and Japan. In 2004, the value of exports was in the region of EUR 5 billion. With regard to the common market organisation for wine, during 2004, the Commission adapted a number of measures to take account of the situation in the ten new Member States. It also fixed, for the 2004/5 marketing year, an indicative financial allocation for the restructuring and conversion of vineyards.

3.2. Animal products

26. The EU is the world's largest producer of **milk**, taking second place to India where most of the milk comes from buffaloes. The United States ranks third. During 2004, the number of dairy cows fell by some half a million to 24 million. The average number of cows per dairy farm in the EU rose to 37. Amongst the EU 15, the largest dairy farms are found UK (average number of cows is 110) whilst the smallest dairy farms are found in Austria (10 cows).
27. The EU is the third largest producer of **beef** in the world (after the United States and Brazil). Since 2003, it has become a net importer of beef; it exports mainly to Russia and imports mainly from South America. In the first nine months of 2004, total beef imports amounted to about half a million tonnes, with an increase observed in the level of imports at full duty. This demonstrated the strong competitive position of some beef suppliers.
28. As for **sheep and goatmeat**, the market was satisfactory until the declaration of bluetongue disease in the Southern Iberian Peninsula in October 2004, after which prices fell. As regards **pigmeat**, the EU is the world's second largest producer, the biggest producer being China. During 2004, prices for pig farmers in the EU were unstable and finished the year at a very low level. Prices in 2004 were however expected to increase.
29. For the last six years or so, there has been a very substantial increase in the world in the production of **poultry meat**. The increase has been of the order of 20 % per year since 1998. In the EU, however, the increase has been at a much slower rate of about 3 %. Indeed in 2000, production in the EU fell due to an outbreak of avian influenza in Italy. Another fall in output occurred in 2003 when there were outbreaks in Belgium and the Netherlands. It was expected that production would increase in 2004.

4. AGRIMONETARY ARRANGEMENTS

30. The agrimonetary measures adopted in 2004 were limited to fixing the exchange rates to be applied to direct aids in those Member States that had not adopted the euro.

5. RURAL DEVELOPMENT IN 2004

31. For the period 2000-2006 the rural development programming consists of the following: 68 Rural Development Programmes – RDPs – (cofinanced by EAGGF-Guarantee), 69 Objective 1 regional programmes with rural development measures (EAGGF Guidance cofinanced) and 20 programmes for Objective 2 regions with rural development measures (EAGGF Guarantee cofinanced).
32. In 2004, Community expenditure on rural development amounted to some EUR 8 billion. Of this the EAGGF Guarantee provided about EUR 5 billion (from October 2003 to October 2004), and the EAGGF Guidance provided about EUR 3 billion (calendar year 2004). In 2004, modifications to 52 rural development programmes were approved by the Commission. Concerning the LEADER+

programmes that had been previously approved 892 of the expected 938 Local Action Groups had been selected at the end of December 2004.

6. ENVIRONMENT AND FORESTS

33. In 2004, the Commission provided conceptual input for the IRENA¹ project and presented an analytical framework which included the identification of a set of 35 agri-environment indicators. The Commission continued the implementation of the "Biodiversity Action Plan for Agriculture"². In May 2004, a Council Regulation³ was adopted which established a new pluri-annual Community programme for the conservation, characterisation, collection and utilisation of genetic resources in agriculture. Several Member States notified the Commission of measures introduced by them regarding the coexistence of genetically modified crops with conventional and organic farming. The Commission evaluated these notifications according to the principles stated in its Recommendation of 2003⁴.
34. In the context of the protection of forests against atmospheric pollution⁵ and fires⁶, the Commission continued the management of projects and national programmes 2000, 2001 and 2002. It launched a preparatory action in the context of the European Forestry Information and Communication Platform. The purpose is to facilitate access to and use of the forestry-related information sources and databases existing in the EU. Work continued on the preparation of an implementation report on the EU Forestry Strategy

7. FINANCING OF THE CAP IN 2004

35. CAP expenditure takes into account the financial perspectives decided at the Berlin Summit in 1999 as adjusted at the Copenhagen Summit end of 2002 to comply with the financial effects of EU enlargement.
36. Of the overall commitment appropriations of EUR 111 300 million entered in the 2004 general budget, an amount of 46 781.4 million (ie 42 %) was allocated to the Guarantee Section. In 2003, EAGGF Guarantee Section commitments accounted for 45 % of commitments in the general budget. EAGGF Guarantee Section expenditure comprised in 2003: export refunds (EUR 3 730 million); public and private storage (EUR 930 million); direct aids⁷ (EUR 29 690 million); other intervention relating to the common market organisations (EUR 5 410 million); and other expenditure, principally rural development (EUR 4 710 million). Direct payments to farmers were thus by far the largest type of aid.

¹ IRENA is the acronym of "Indicators Report on the integration of Environmental concerns into Agriculture policy".

² COM(2001) 162 final, volume III.

³ Council Regulation (EC) No 870/2004.

⁴ Commission Recommendation 2003/556/EC (OJ L 189/36, 29.7.2003, p. 36).

⁵ Council Regulation N° 3528/86 (OJ L326 of 21.11.1986, p.2-4 Finnish and Swedish special editions Chapter 3, Volume 22, p. 59).

⁶ Council Regulation (EEC) No 2158/92 (OJ L217 of 31.7.1992, p. 3; Finnish and Swedish special editions Chapter 3, Volume 44, p. 3).

⁷ Direct payments as defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160 of 26.6.1999, p. 113).

37. As regards the EAGGF Guidance Section, which finances rural development programmes, for the period 2000-2006 there is no decrease in support. In actual fact, measures targeting agricultural structures and the diversification of rural areas which up to 1999 had been funded by the EAGGF Guidance Section, are now covered by the Guarantee Section.
38. Evaluation: In the field of market policies, the evaluation of tobacco and olive oil CMOs were completed. For the wine sector, a contract was signed; a call for tenders was published for bananas, and preparatory work advanced for pork, eggs and poultry, as well as for the environmental effects of CMOs relating to permanent crops. In the field of rural development policies, a study on the mainstreaming Leader innovations that had been launched in 2003 was completed.

8. ENLARGEMENT

39. The Accession Treaty for the ten acceding countries entered into force on 1 May 2004. A regulation⁸ adapting the texts of the CAP Reform to take account of enlargement and a decision⁹ adapting the Act of Accession to take account of the CAP reform were adopted on 22 March 2004. Negotiations with Bulgaria and Romania on all chapters were completed in December 2004. The Commission continued to monitor the commitments that these two countries had made during the negotiations. The Directorate-General for Agriculture worked closely with DG Enlargement on preparing the Commission's impact study on Turkish accession and drafted the chapter on agriculture. Substantial contributions were made to the Commission Opinion on Croatia's application for accession. The opinion was adopted on 20 April 2004.
40. Eight out of ten SAPARD beneficiary countries became Member States on 1 May 2004. The Commission adopted various provisions to facilitate the transition from SAPARD to rural development programming instruments available to new Member States. As of the end of December 2004, a total amount of EUR 2 215 million (cumulative amount of EU contribution) had been committed to beneficiaries by the SAPARD Agencies.

9. INTERNATIONAL RELATIONS

9.1. International organisations and agreements

41. The EU continued to participate in various meetings of international organisations. Concerning the World Trade Organisation (WTO), following the unsuccessful Ministerial meeting in Cancun in September 2003, work continued in the spring of 2004 and led to a very successful outcome of trade talks during July with the conclusion of the Agreed Framework.
42. The EU also participated in the meetings of the Organisation for Economic Co-operation and Development (OECD). During 2004, discussions went deeper into

⁸ Council Regulation (EC) 583/2004 (OJ L 91 of 30.3.2004, p.1).

⁹ Council Decision 2004/281/EC (OJ L 93 of 30.3.2004, p.1).

issues of trade distortion by continuing studies regarding "de-coupling" and the impact of risk-related support on production decisions.

43. Following the conclusion of negotiations held during 2004, the International Agreement on Olive Oil and Table Olives will be replaced by a new agreement. Concerning developing countries, in April 2004, the Council adopted an EU action plan aimed at helping them fight excessive dependency on the export of agricultural commodities.

9.2. Bilateral and regional trade relations

44. Regarding the negotiations on Economic Partnership Agreements, during 2004, the Commission was involved in the elaboration of roadmaps for the six regions in the developing world that are involved. Further discussions were held on the outstanding issues of the EU/South Africa wine and spirits agreement.
45. Following ratification in all EEA States, including the new EU Member States, the Agreement on the European Economic Area was modified to take account of the enlargement of the EU. In October, the Council granted a mandate to the Commission to undertake further bilateral negotiations with Iceland in agriculture. Agreement was reached with Norway to resume bilateral trade negotiations in agriculture in 2005. Intensive talks took place with Switzerland and the "bilateral II" package was completed.
46. The Commission held talks with several Asian countries on the subject of market access. The EU sent an inspection team to India to evaluate information received in the context of a request for approval of a number of accreditation agencies for the export of organic food. In the framework of the Barcelona process, Association Agreements have now been concluded with all Mediterranean countries. Negotiations on the agricultural part of the future Free Trade Agreement with the Gulf Co-operation Council were provisionally concluded.
47. Negotiations in the framework of the respective Europe Agreements were concluded with Romania and Bulgaria to take account of enlargement and to provide for further trade concessions in the agricultural field. Implementation of the new arrangements is expected in early 2005. Intensive negotiations were held with Mercosur with a view to concluding an Association Agreement by October 2004. This deadline was not met however and negotiations will continue in 2005. Relations with the Russian Federation were fruitful as regards the achievement of an agreement in April on the Russian proposal for market access in the context of its accession to the WTO.
48. Regarding the US, intensive negotiations on a comprehensive EU/US wine agreement were held. These will continue in 2005.